

Weekly Idaho Grain Market Report available from IBC...

Since Oct. 1995, the IBC has been producing a weekly **Idaho Grain Market Report** and distributing to producers and other interested parties (primarily through direct email). This report includes local barley and wheat prices at least 12 locations throughout Idaho (Wednesday prices), weather and crop conditions, domestic and export market trends and futures market trends. If you are not already receiving this report and want to, please give us a call at 208-334-2090 or email kolson@idahobarley.org. You can also find the report on the IBC website at www.idahobarley.org.

Improving Growers' Bottom Line...

IBC continues campaign to improve barley crop insurance –

- Worked to restore Malt Barley Endorsement in 1996.
- Worked directly with Farm Bureau Insurance Co. to develop a Revenue Assurance policy for barley. Idaho was the first state to have feed barley revenue assurance coverage in 2001, followed by malt barley coverage in 2003.
- Worked to improve price coverage under Malt Barley Option A, which applies to barley grown on the open market or grown under contract with elevators rather than malting and brewing companies. Because of Idaho's strong price history which we document each year for the actuarial calculations, Idaho growers enjoy a higher price coverage under Option A than growers in other major malting barley states.
- Passed amendment in the 2008 Farm Bill, with Senator Crapo's help, to ensure that the insurance quality factors are more consistent with malt industry specifications so that there are no unintentional gaps in coverage.

Farm Bill crosses the finish line – Both chambers of Congress passed the Food, Conservation and Energy Act of 2008 the week of May 12 with the necessary margins to overcome a threatened presidential veto. The five-year, \$285 billion farm bill became law after veto-overrides in both the House and Senate on May 22. **This bill includes two of National Barley Growers Association's top priorities –**

- Preserve direct payments (although reduced \$100 million for 2009-2011);
- Adjust loan rates and target prices to achieve greater equity in payment levels between program crops. For the first time ever, barley loan rates and target prices will be equivalent to other major feed grains. **Barley Loan Rate was increased from \$1.85/bu to \$1.95 in 2010-2012.** Wheat loan rate is increased from \$2.75/bu to \$2.94. **Barley Target Price was increased from \$2.24/bu to \$2.63 in 2010-2012.** Wheat target price increased from \$3.92/bu to \$4.17.

IDAHO BARLEY R•E•P•O•R•T

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Market Diversification – Selling the 'Idaho Barley Advantage'

MALTING BARLEY

Idaho malt contracts increase in both volume and price this year – Idaho malting barley contract volume is estimated to be **10% to 40% higher this year** due to lower carryover inventories. Based on current demand trends and export interest that the IBC is pursuing, there will be opportunities for additional open market sales this fall. But the long-term outlook for domestic malt barley demand remains flat, due to a stagnant domestic beer market. The one exception is the craft beer segment which grew at a rate of 12% last year, capturing 4% of the overall U.S. market. This craft beer growth is one reason Great Western Malting Co. has seen a resurgence in malt processing at its Vancouver, WA, plant. Both Anheuser Busch and Coors also have seen explosive growth in their specialty beer brands.

Malting barley export opportunities are on the rise – Another important growth opportunity will be the expansion of beer manufacturing in the developing economies of Asia and Latin America. Beer is growing at annual rates of 4-10% in many of these markets, with prospects for strong future growth in markets like China, Russia, South Korea, Southeast Asia, Mexico, Central America, Colombia, Peru and Chile.

However, without large volumes of open market malting barley available in the past, it has been difficult for Idaho to make a big market push in the export arena, but we think that may change with the availability of winter malting barley varieties which will greatly boost our barley yields. **To capitalize on these emerging export opportunities, the IBC helped organize and sponsor the 2nd U.S. Malting Barley and Malt Buyers Conference held in early January in Panama City, Panama. We sold both malting barley and malt to new Latin American customers as a result of this conference.** A delegation from Mexico's second largest brewing company visited Idaho last November and is working on purchase agreements with eastern Idaho suppliers for the 2008 and 2009 crops.

Looking ahead, we will be hosting buyers from Mexico, Chile, Colombia and Dominican Republic this summer to explore opportunities for future production contracts in Idaho for export.

FOOD BARLEY

TVRR barley fractionation plant takes big step forward – Treasure Valley Renewable Resources, a farmer LLC based in Fruitland, ID, reports that its long-awaited financing package is now in place to begin construction of a unique barley and wheat fractionation plant that will separate the grain into various value-added components and produce 30 million gallon ethanol as a byproduct. Construction of the plant is scheduled to begin immediately in the Ontario, OR, area. **About 12-15 million bu of grain (8 million bu specialty barley) will be processed into beta-glucan fiber, protein for fish feed and starch for ethanol.**

First food barley sales to Japan – Last year the U.S. sold its first food barley to Japan – more than 2,000 metric tons – all of it sourced from Idaho. Hakubaku Company, the largest food barley processor in Japan, launched a new barley product in March using the high beta-glucan food barley from Idaho. The product is called "Barley for Cooking" and is now available in supermarkets and retail stores throughout Japan. This is an innovative food product for Hakubaku, because for the first time they made a barley product not to be cooked with rice in a rice cooker. According to the US Grains Council office in Tokyo, the traditional way of consuming barley in Japan is to eat it as a staple food, but this time Hakubaku introduced barley as a side dish or soup ingredient.

FEED BARLEY

We have seen a surge in both local and export feed barley demand to replace competing feed grains that are moving into nonfeed channels. Without question, strong feed barley prices are necessary to keep a floor under our contract malt barley prices.

Exports to Japan up 30% this year – U.S. was the dominant supplier of feed barley exports to Japan in the past year, due to smaller supplies available from competitive suppliers like Australia and Canada. Japan is the largest export customer for U.S. barley, importing more than 540 thousand metric tons (25 million bushels) in the current marketing year 2007-08 that ends May 31. This level is up nearly 30% from the same period a year ago. Much of our success is due to ongoing trade serving efforts in the Japanese market by U.S. Grains

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Outlook for MY 2008-09 Grain Markets

- MY 2007-08 grain markets clearly made history, with all of the major grains hitting record high prices as demand outpaced supply for the 4th year out of the last five years.
- MY 2008-09 is shaping up to be another bullish year for corn, which should mean strong underlying demand and price support for feed and malting barley.
- Feed grain demand remains exceptionally strong in emerging economies like China and India, as well as the U.S. ethanol market, which is projected to need 4 billion bushels of corn this year, up 33% from a year ago and 89% from 2006.
- USDA is projecting world feed grain production to increase just slightly to 1,070 MMT this year, while the US crop is projected to decrease 7% to 325 MMT. World feed grain carryover stocks are estimated to decrease by 6% to 127 MMT, while US stocks are expected to decrease by 40% to 23 MMT.
- World barley production is projected to be up 6% to 142 MMT. US production is expected to be 11% higher at 5.1 MMT. World barley carryover stocks are estimated to increase 10% to 18 MMT, while US carryout is projected to jump 34% to 1.7 MMT.
- World wheat production is projected to set a new record at 656 MMT, which means that prices will not reach last winter's highs of \$12-13/bu. However, U.S. and world stocks remain historically tight so most analysts expect U.S. wheat prices will likely chop around and bottom out at harvest at around \$7/bu and then see some **upside potential in the period September through December before the southern hemisphere crop moves to market.**

- The wildcard for all grain markets is the value of the U.S. dollar. A rise in the dollar could cause some investors who have taken aggressive long positions in commodity markets to liquidate some of these positions, putting downward pressure on prices. A higher dollar could also soften export demand for U.S. crops. Other outside market forces like record high crude oil also will continue to have a significant impact on futures trading.

In-depth – Water Issues Remain on the Front Burner

2008 irrigation water outlook looks favorable – 2008 snowpack measurements were very positive for most Idaho basins, with snow water equivalents running between 106% of average (Big Wood Basin) to 168% (Weiser Basin) as of May 1. Snowpack levels in North Idaho range from 140 to 160% of average, causing some localized flooding this spring.

According to IDWR, the May to July streamflow forecast for the Upper Snake River Basin near Heise is 107%, sufficient enough to avoid water calls this year. Meteorologists caution that the current La Nina weather pattern that was responsible for the above average moisture in the Pacific Northwest this winter is breaking up and the extended outlook calls for above average temperatures and below normal precipitation for the next 60 to 90 days.

Swan Falls water agreement upheld in recent court case – On April 18, the presiding judge of the Twin Falls court that has been sorting through the Snake River Basin water rights, rejected a claim by Idaho Power that the historic 1984 Swan Falls Water Agreement was flawed and should be rescinded. This was a big victory for water users.



2008 legislature supports water studies & fish farm mitigation – The second session of the 59th Idaho Legislature addressed several key water issues, including funding for aquifer management studies and the purchase of a Thousand Springs area fish farm that will provide replacement water for the Blue Lakes Trout Farm water call.

- 2008 Legislature funded a \$20 million statewide aquifer management study, with most of the funding earmarked for additional studies to upgrade the Eastern Snake Plain Aquifer (ESPA) model. Remaining funds will support ongoing studies of the North Ada County and Rathdrum Prairie aquifers. Meanwhile, the ESPA's Coordinated Aquifer Management Process (CAMP) is progressing to Phase II, which entails specific making recommendations on ways to address ESPA conflicts, including new storage capacity and full utilization of recharge.
- \$1.8 million to assess opportunities for additional irrigation water storage – \$1.4 million feasibility study on raising the Minidoka Dam by five feet to provide additional 50,000 acre-feet storage and \$.4 million to study a new dam on the Upper Teton River (rebuild at the old Teton dam site or another location in the canyon).
- \$10 million loan toward the purchase of Pristine Springs fish farm in the Thousand Springs area to provide replacement water to Blue Lakes Trout Farm under their 2005 water call. The purchase was completed by the Idaho Water Resources Board on April 4. This \$26 million project involves several state, city and private irrigators and is the result of tremendous leadership efforts by Deputy Attorney General Clive Strong. Partners in this innovative effort include the state, which is providing the \$10 million loan and an additional \$5 million already appropriated to the Idaho Water Resources Board for long-term water purchases, the City of Twin Falls that will provide \$10 million to acquire water to address arsenic problems in the city's existing water supplies and \$1 million contributed by groundwater pumpers.

U.S. GRAIN BALANCE SHEET, MY 2008/09, USDA, MAY 9, 2008 (MILLION BU)

first projections for new Marketing Year 2008/09

	BARLEY		CORN		WHEAT	
	2007/08	2008/09	2007/08	2008/09	2007/08	2008/09
Harvested Area (mln acres)	3.5	3.6	86.5	78.8	51.0	56.3
Carryin	69	59	1,304	1,383	456	239
Production	212	235	13,074	12,125	2,067	2,392
Imports	23	20	15	15	95	100
Total Supply	304	314	14,393	13,523	2,618	2,732
Food, seed & industrial	145	145	4,360	5,360	1,038	1,044
Ethanol			3,000	4,000		
Feed	60	65	6,150	5,300	60	230
Exports	40	25	2,500	2,100	1,280	975
Total usage	245	235	13,010	12,760	2,378	2,249
End stocks	59	79	1,383	763	239	483
Ave. farm price (\$/bu)	\$4.00	\$5.70 -6.70	\$4.10-4.40	\$5.00 -6.00	\$6.55	\$6.60 -8.10

USDA World Supply & Demand Estimates, May 9, 2008

WATER CALLS –

Thousand Springs Water Calls (Clear Springs Foods' Snake River Farm and Blue Lakes Trout Farm) – An administrative hearing was conducted in Boise on November 28-December 13, 2007 to resolve disputes between ground water users and two aquaculture farms that hold senior water rights located in the Thousands Springs areas near Hagerman. The hearing officer, former Idaho Supreme Court Chief Justice Gerald Schroeder, issued his recommended order on January 11, mostly upholding the 2005 order issued by the IDWR director. The next step in this legal process involved an opportunity for parties to file petitions for reconsideration, briefs and exceptions to the recommended order – a process that will be concluded on April 10. **IDWR Director Dave Tuthill is expected to issue a final order in this matter this spring. Because no final rulings have been issued at this time, IDWR intends to administer these calls this year based on the original 2005 orders.** As noted above, replacement water will be provided to Blue Lakes Trout Farm under the recent purchase of Pristine Springs fish farm. Water mitigation plans have been submitted by groundwater pumpers and dairies to satisfy the requirements under Clear Springs' water call.

Surface Water Coalition Calls – An administrative hearing was conducted in Boise on January 16 - February 5, 2008 to resolve disputes between ground water users and a coalition of surface water irrigators who hold senior water rights. **A recommended order was issued by Judge Schroeder on April 29, which will then be followed by an opportunity for reconsideration before the IDWR director issues his final order. Again, because no final rulings are now in place, IDWR intends to administer this call under the terms of the 2005 order.** After assessing 2008 water availability, the IDWR director will decide whether mitigation will be required under the 2005 order. Director Tuthill sent more than 2,700 letters last October to junior water right holders whose water is drawn from the Eastern Snake Plain Aquifer cautioning that curtailment orders might be required in 2008. However, **based on current water flow projections, curtailment is unlikely.**

Producer Toolbox – Tackling Rising Input Costs

What do we know for certain about the 2008 crop today? We know that spring planting and growing conditions have been challenging in many areas of the state, which could mean greater production risks this year. We know that input costs have skyrocketed – fuel up more than 45% and fertilizer up more than 65 to 80%. In response, producers are challenged to sharpen their management skills at every level. Unfortunately, there are no silver bullets for offsetting these input costs, but there are tools available that can help.

Experts predict that a weak U.S. dollar, geopolitical/supply concerns and rising demand will keep upward pressure on crude oil and diesel prices. While short term relief is probably not in the cards, a growing number of Idaho fuel suppliers are offering fuel contract opportunities that can help producers lock in the prices during periods of the year when prices are historically at their lowest, like December to March. Using this forward contracting method, it is estimated that Idaho growers could have saved on average \$.60/gallon in recent years and more than \$1.00/gallon this year. Growers are encouraged to work with their suppliers on appropriate risk management strategies.

Here are some other resources immediately available to Idaho producers...

1. University of Idaho CIS Bulletin 1127 on "Saving Energy and Fertilizer Costs: Best Management Practices for Southern Idaho Grain Producers" – produced in 2006 as a result of a project initiated by the Idaho Barley Commission.
2. Malt barley irrigation recommendations can be found at the IBC website at www.idahobarley.org. Click on Crop Management Tips.
3. Workbook on "How to Develop a Grain Marketing Plan" – IBC website at www.idahobarley.org. Click on Risk Management.

Improving Growers' Bottomline, continued

Other Farm Bill Highlights –

- 73.5% of spending is for nutrition (\$10.4 billion added to the original baseline).
- 16.1% goes for commodities, disaster aid and crop insurance.
- Adds a new optional state level revenue based countercyclical support payment beginning in 2009 in exchange for a 20% reduction in direct payments and 30% reduction in loan rates.
- Changes to payment limitations — Producers with a three-year adjusted gross income of more than \$750,000 in farm income will lose direct payments. Those with three-year AGI of more than \$500,000 in non-farm income will lose all program eligibility.
- Increases conservation funding by \$7.9 billion, but cuts CRP to 32 million acres.
- Direct payments will be cut by \$100 million in years 2009 through 2011 by reducing base acres covered from 85% to 83.3%.

Crop residue burning tool to be restored

– During the past year, Idaho Grain Producers Association (IGPA) led an intensive effort to restore residue burning as a crop management tool in all parts of Idaho. After reaching a negotiated agreement between the parties last December, IGPA helped secure passage of a bill during the recent legislative session to make the necessary changes in the program, including transfer of oversight responsibilities from ISDA to the Idaho Department of Environmental Quality (DEQ). The new burning rules now apply to producers statewide.

DEQ finalized changes to Idaho State Implementation Plan (SIP) in early May and has submitted the new rules to EPA for approval under the federal Clean Air Act. EPA-Region 10 published a "Proposed Rule" in the Federal Register on April 29 seeking approval of the revised Idaho SIP. Comment deadline was May 29. IGPA continues to closely monitor this final rule-making phase to ensure that the rules meet the terms of the earlier negotiated agreement and will be in place in time for fall burning.

Market Diversification – Selling the 'Idaho Barley Advantage' *continued from front page*

Council, our international marketing partner based in Washington, D.C. with nine offices around the world.

Value-added feed markets are being developed – IBC has been working with barley breeders and fish feed manufacturers in the U.S. and Southeast Asia to create new markets for barley as a fish ingredient. The United Nations Food and Agricultural Organization reports that aquaculture production has risen by an average of 8.8% per year since 1970, compared to other livestock production at 2.8% annual growth. Fish meal – the tradi-

tional ingredient in most fish diets – has risen from about \$300/tonne in 2005 to more than \$1,200/tonne today, causing end users to look for substitute ingredients. Right now, we are supporting cutting edge research at the ARS and UI fish research facilities in Hagerman and Aberdeen to create purified barley protein concentrate which could replace the more expensive fish meal, at least up to 25% of the ration. Montana Microbial Co., a private enzyme company based in Missoula, MT, is currently investigating the feasibility of building a plant in Buhl that would use new

patented wet fractionation technology to separate barley protein and use the remaining starch for ethanol production.

IBC also is sponsoring a fish feeding trial of Clearwater barley in catfish and tilapia diets on a large aquaculture farm in Vietnam this summer. Clearwater is a hull-less low phytate barley that was developed by research geneticists at the ARS National Small Grains Germplasm Research Facility in Aberdeen. The variety was released in 2007.

Liberalized trade can help expand barley markets

The current downturn in the U.S. economy is the wrong time to get cold feet on free trade agreements, says Dan Mader, barley commissioner from Genesee, ID. He notes there are three bilateral free trade agreements or FTAs that were completed last year that still need congressional approval. Mader emphasized that these FTAs with Colombia, Panama and South Korea will open new markets for U.S. barley and malt and should be voted on immediately, but are likely to be delayed until after the fall presidential election.

Vote on Colombian trade deal delayed by Congress – President Bush submitted legislation to Congress on April 8 to implement the Colombia-U.S. Trade Promotion Agreement that he officially signed in April 2007. Under the fast-track negotiating rules that were in effect at the time this agreement was completed last year, Congress should be bound by a 90-day clock for a mandatory up or down vote on the bill, without the possibility of amendments. However, because of rising protectionist pressures and specific concerns about the treatment of labor unionists in Colombia, the House passed a measure on April 10 that would indefinitely delay congressional consideration of the Colombian trade pact.

Mader visited Colombia on a market development trip in late 2006 and reports that the Colombia trade agreement is a very good deal for the Idaho grain industry – securing immediate duty-free access for our barley, malt and wheat products. Colombian brewers have a large growing market for barley and are unable to produce it domestically. They are very interested in sourcing their raw materials from the U.S. but high tariffs have made us uncompetitive in the past.

Mader says “the only thing accomplished by rejecting this free trade agreement will be to punish American producers and workers with continued one-way tariffs against our products.” He stresses “this agreement will give U.S. products the same duty-free treatment that Colombia already enjoys in our market. More than 90% of Colombia prod-

ucts enter the U.S. duty free under the existing Andean Trade Preference Act.”

Korean trade deal also awaits congressional approval – The Korean-US Free Trade Agreement or KORUS signed by President Bush last July will remove all tariffs on U.S. wheat immediately and will begin opening the highly protected Korean market to U.S. barley. This deal establish-

es two duty-free quotas or TRQs for U.S. barley and malt:

- 9,000 metric ton TRQ for malting barley and malt with a 2% annual growth; phased out over 15 years.
- 2,500 metric ton TRQ for other barley (such as value-added food barley) with a 2% annual growth; phased out over 15 years.



Barley evaluation nurseries will be streamlined

Starting in FY 2009, the IBC is taking steps to consolidate locations for ARS breeder and UI extension nurseries that are planted in 14 areas throughout the state. Successful variety development requires that experimental breeding lines from the ARS Aberdeen breeding program are tested under diverse environmental conditions in order to effectively evaluate and select widely adapted lines for commercial release. Although similar in design, UI extension nurseries serve a more practical function of providing objective, uniform and statistically sound evaluations of

spring and winter variety performance in diverse Idaho environments. The IBC has determined that funding constraints will require a more integrated approach to barley variety testing in the future. Shown is a summary of nursery locations funded by the IBC in summer 2008.

UI receives third year of funding for Barley for Rural Development research effort

About \$231,860 was awarded to University of Idaho barley research program in FY 2008 under a federal CSREES Special Research Grant entitled Barley for Rural Development (special congressional earmark sponsored by Senator Larry Craig and Congressman Mike Simpson). Of that total amount, about \$90,000 is allocated to Barley Varietal Development (ARS breeder Don Obert) and \$90,000 to agronomic and disease research (UI cereal agronomist Juliet Windes). Approximately \$50,000 will be awarded to other researchers as subgrants under a competitive review process.

UI first received funding for this Barley for Rural Development research project in FY 2006 (\$352,000). Special earmark funding was zeroed out in FY 2007, but the UI redirected existing Hatch research funding (\$159,100) to keep BRD research projects on track last year.

Location	ARS Breeder	UI Extension
North	Potlatch Genesee (WSU) Fenn Tammany – winter	Bonnars Ferry Moscow
Southwest		Parma – spring & winter
Southcentral	Filer – spring & winter	Rupert – spring & winter
Southeast	Aberdeen – spring & winter Soda Springs Idaho Falls (BARI) Tetonia	Aberdeen – spring & winter Idaho Falls Ashton



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